

Economics -2019

General Instructions :

- (i) All questions in both Groups are compulsory.
- (ii) Question Nos. 1 to 5 and 17 to 21 are multiple Choice type Questions carrying 1 mark each.)
- (iii) Question Nos.6 to 10 and 22 to 26 are short-answer-I type questions carrying 3 marks each. Answer to these question should not exceed 60 words each.
- (iv) Questions Nos.11 to 13 and 27 to 29 are also short-answer-II type questions carrying 4 marks each. Answers to these question should not exceed 70 words each.
- (v) Question Nos. 14 to 16 and 30 to 32 are long-answer type questions carrying 6 marks each. Answers of these question should not exceed 100 words each.
- (vi) Attempt all parts of questions at one place.

Group - A

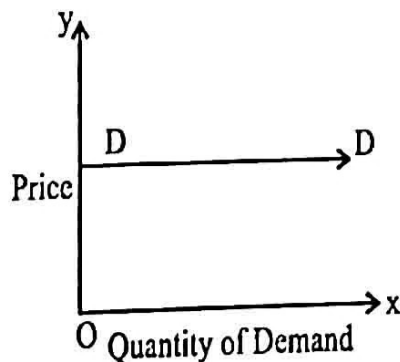
(Multiple Choice Type Questions)

Choose the correct answer :

1. When TU = becomes maximum, MU is
 - (a) Positive
 - (b) Negative
 - (c) Zero
 - (d) None of these

Ans. (c)

2. Following figure shows



- (a) High elastic demand
- (b) Perfectly elastic demand
- (c) Perfectly inelastic demand
- (d) Less elastic demand

Ans. (c)

3. "Economics is the science of wealth." Who said?

- (a) Marshall
- (b) Robbins
- (c) Adam Smith
- (d) J.K. Mehta

Ans. (c)

4. The curve which shows economic problem is called.

- (a) Production curve
- (b) Demand curve
- (c) Indifference curve
- (d) Production possibility curve

Ans. (d)

5. In which market is average revenue equal to marginal revenue?

- (a) Perfect competition
- (b) Oligopoly
- (c) Imperfect competition
- (d) Monopoly

Ans. (c)

(Short Answer I Type Questions)

Answer the following questions:

3x5=15

6. What is utility?

Ans. Want satisfying capacity of a commodity is known as utility.

7. Explain Economic Activity.

Ans. Economic Activity is the activity of making, providing, purchasing or selling of goods and services.

8. What is opportunity cost?

Ans. Opportunity cost refers to value of a factor in the next best alternative use.

9. What are the exceptions of the law of demand?

Ans. The exceptions of law of demand are :—

- (a) Price of the commodity :— When price of the commodity increases in the market, its quantity demanded decreases and vice - versa.
- (b) Income of the consumer :— Market demand for a commodity is directly related to income of the consumer. Increase in income of consumer causes increase in market demand for the commodity.
- (c) Price of related goods :— in case of substitute goods, demand for a commodity falls with a fall in price of the substitute commodity. In case of complementary goods, market demand for the commodity rises with a the commodity. When price of th commodity increases in the market its quantity demand fall in the price of complementary commodity.
- (d) Taste and Preferences of consumer :— Fashion and behaviour etc also tends to change in demand.
- (e) Change of price in future :— If price of the commodity likely to increase in future then the demand will increase.

10. What is meant by production function?

Ans. Production function studies the functional relationship between physical inputs and physical output.

(Short Answer II Type Questions)

Answer the following questions: 4x3=12

11. Why does demand curve slope downward?

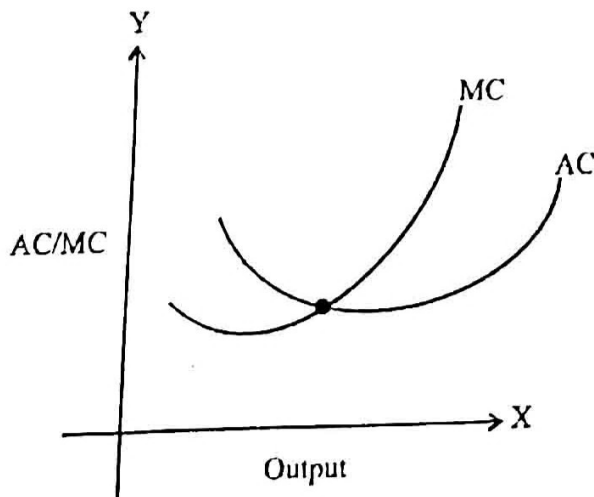
11. The demand curve slopes downwards because of the following reasons :-

- (a) Law of diminishing Marginal Utility : According to this law, the utility derived from each successive unit of a commodity tends to diminish. Since P_x , diminishing MU_x must mean diminishing P_x corresponding to greater purchase of the commodity.
- (b) Income effect :- A fall in price of a commodity causes increase in real income of the consumer. According, quantity demanded of the commodity increases.
- (c) Substitution effect :- When price of the commodity decreases in relation to the price of its substitute, its quantity demanded increases in place of the substitute good.
- (d) Size of consumer group : — When the price of a commodity falls, many consumers who were not buying it at its previous price begin to purchase it now.

12. Explain the relationship between average cost and marginal cost.

Ans. The relationship between marginal cost and Average cost are :-

- (a) When AC is falling, $AC > MC$.
- (b) When AC is raising, $AC < MC$.
- (c) When AC is constant, $AC = MC$.
- (d) MC curves cuts AC curve at its lowest point.
- (e) AC can fall even when MC is rising.
- (d) Both AC and MC curves are U-Shaped.



13. Distinguish between 'Expansion of supply' and 'Increase in supply.'

Ans. The difference between extension of supply and Increase in supply are :-

Extension of Supply

- (a) Extension of supply refers to increase in quantity supplied of a commodity due to an increase in its price
- (b) Extension of supply occurs due to change in own price of the commodity

Increase in supply

Increase in supply refers to increase in quantity supplied of a commodity at its existing price.

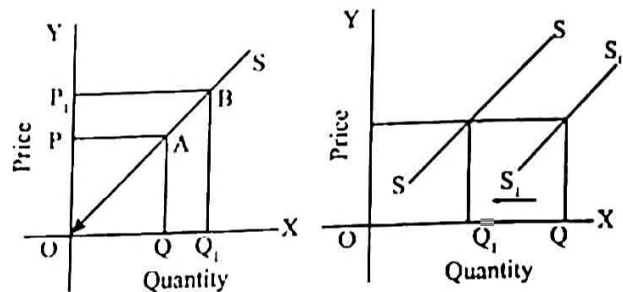
Increase in supply occurs due to change in factors other than own price of the commodity.

- (c) Diagrammatically, it implies a upward movement along the same supply curve.

Diagrammatically, it implies a forward shift in supply curve.

(d) By Diagram

By Diagram



(Long Answer Type Questions)

Answer the following questions:

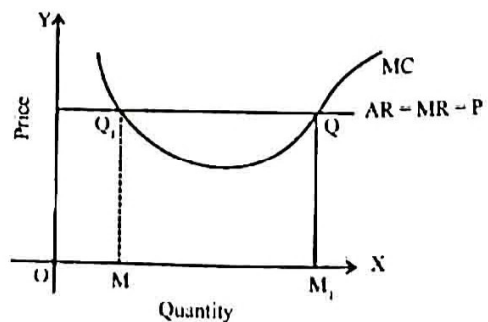
6x3=18

14. What is perfect competition? Explain the characteristics of perfect competition.

Ans. Perfect competition is a form of the market in which there is a large number of buyers and sellers and where homogeneous product is sold at a uniform price.

Characteristic of perfect competition market are :-

- (a) Large no. of buyers and sellers. So that no individual buyer/seller can affect price of the product.
- (b) Homogeneous product. So that no individual seller exercises even a partial control over price of the product.
- (c) Freedom of entry and exist in the market. So that only normal profits prevail in the long run.



- (a) The equilibrium of the firm will be when.
 $MC = MR = Price$

- (b) When MC curve cut the MR curve first at point Q_1 , its satisfy the condition of $MC = MR$ but it is not a point of maximum profit because after point Q_1 , MC curve is below the MR curve, It does not pay the firm to produce the minimum output when it can earn larger profit beyond OM.
- (c) It will however stop further production when it reaches the OM, level of output where the firm satisfies the condition of equilibrium At the point M_1 , the producer will produce OM_1 quantity and M_1Q price.

15. Explain the producer's equilibrium with marginal revenue and marginal cost method.

Ans. Producer is said to be in equilibrium when he is maximises his profit or minimises his loss. It occurs when.

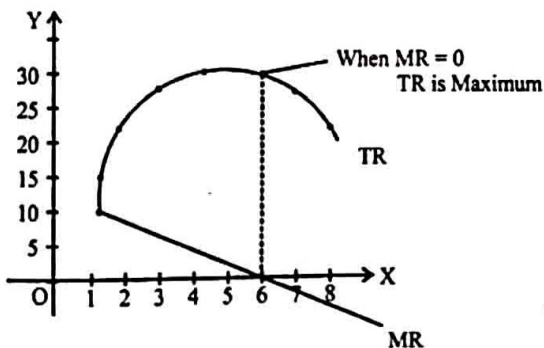
- (i) $MR = MC$
 (ii) MC is rising

MR and TR is explain with the help of schedule and diagram.

Schedule :

Q	TR	ARect	MR
1	10	10	10
2	18	9	8
3	24	8	6
4	28	7	4
5	30	6	2
6	30	5	0
7	28	4	-2
8	24	3	-4

Diagram :



- (i) When MR decreases but remain positive, TR increases
 (ii) When MR is equal to O, TR is maximum.
 (iii) When MR becomes negative, TR decreases.

AR is calculated by :-

$$AR = \frac{TR}{Q} \left(\frac{\text{Total Revenue}}{\text{Total Quantity}} \right)$$

MR is calculated by :-

$$MR = TR_n - TR_{n-1}$$

16. What is 'Price Elasticity of Demand'? Briefly explain any two methods of measuring it.

Ans. Price elasticity of demand refers to the degree of increase or decrease in quantity demanded of a commodity as a result of change in its price.

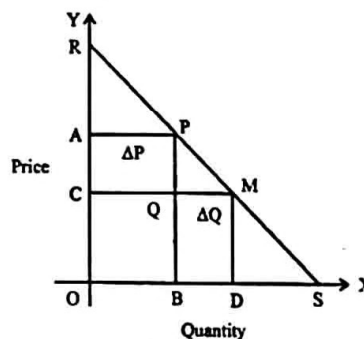
Measurement of Price Elasticity of Demand are :-

- (a) Percentag - Change Method or proportionate method by percentage change Method, price elasticity of demand is the ratio of percentage change in quantity demanded of the commodity due to some percentage change in its price.

$$Ed = (-) \frac{\text{Percentage in QD}}{\text{Percentage change in price}}$$

$$= (-) \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

- (b) Point Method :-



Let R_s be a straight line demand curve. If the price falls from $PB = (OA)$ to $MD = (OC)$. The QD increases from OB to OD .

Elasticity at point P on the R_s demand curve according to the formula is :-

$$Ed = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

Δq = change in QD.

Δp = change in price

p = initial price

q = initial quantity.

Or

16.

Q	TR	MR	AR
1	10	10	10
2	20	10	10
3	30	10	10
4	40	10	10
5	50	10	10
6	60	10	10

Group - B

(Multiple Choice Type Questions)

Choose the correct answer:

1x5=5

17. Which of the following is included in circular flow?

- (a) Consumption (b) Investment
 (c) Income (d) All of these

Ans. (d)

18. Main function of the central bank is
 (a) the Banker, Agent, Advisor of Central Government
 (b) Bank of banks
 (c) issuing currency note
 (d) all of these

Ans. (d)

19. Which is included in indirect tax?
 (a) Income tax (b) Wealth tax
 (c) Excise duty (d) Gift tax

Ans. (d)

20. Which one is the invisible item of Balance of Payment?
 (a) Banking (b) Shipping
 (c) Communication (d) All of these

Ans. (d)

21. Which of the following is included in the primary function of money?
 (a) Medium of exchange (b) Measure of value
 (c) Store of value (d) All of these

Ans. (d)

(Short Answer I Type Questions)

Answer the following questions: 3x5=15

22. What is the meaning of money supply?

Ans. Money supply refers to the total quantity or stock of money available in the economy at a point of time.

Components of money supply are :—

- (i) Currency held by public.
- (ii) Demand deposits of the people with the commercial banks.
- (iii) Other deposits

23. What is the difference between final goods and intermediate goods?

Ans. The difference between final goods and intermediate goods are :—

<u>Final Goods</u>	<u>Intermediate Goods</u>
Final Goods are these goods which are out of the boundary line of production and are ready for use by their final users	Intermediate goods are those goods which are used as raw material or are purchase by the firms for resale.
<i>Example</i> : — Car used by the households.	<i>Example</i> — Wood by a carpenter to make chairs

24. What is Bank rate?

Ans. The bank rate is the rate at which the central bank of the country offers loans to the commercial banks by discounting the securities.

25. Define marginal propensity to save.

Ans. Marginal propensity to save (MPS) refers to the proportion of additional income that goes to saving. It is measured as the ratio between change in saving and change in income. Thus;

$$MPS = \frac{\Delta S}{\Delta Y}$$

26. Write the features of macro-economics.

Ans. The features of macroeconomics are :—

- (a) Study of Aggregates :— Macro - economics deals with the study of nations economy as a whole. The scope of macro economics are wide. It is concerned with concept such as Aggregates demand, Aggregates supply, Total output, General Price level, National Income etc.
- (b) Lumping Method :— Macro analysis deals with the he behaviour of aggregates. Macroeconomics users, lumping method for the purpose of economic study. Under this method we study the general price level and not the prices of individual product.
- (c) Income Analysis :— The Income theory is a major aspect of macroeconomics theory. A major task of macroeconomics is the determination of national income.
- (d) Overall view of the economy :— The study of macroeconomics give an overall view of the economy. In interlinks various aggregates to show the relationships between them.

(Short Answer II Type Questions)

Answer the following questions: 4x3=12

27. Distinguish between Gross Domestic Product and Gross National Product.

Ans. The difference between gross Domestic product and gross, National Product are :—

Gross Domestic Product :—

- (i) Gross Domestic product is the market value of final goods and services produced within the domestic territory of the country within one year.
- (ii) It does not include net factor income from abroad (NFIFA)
- (iii) To see the strength of a country's local economy
- (iv) Formula :— $GDP = C + G + I + (X - M)$
 C = Private final consumption expenditure
 G = Govt. final consumption expenditure
 I = Net domestic capital formation
 X = Exports
 M = Imports

Gross National Product :—

- (i) Gross National product is the market during value of final goods and services produced during the year along with net factor income from abroad (NFIFA) and consumption of fixed capital.
- (ii) It include net factor income from abroad (NFIFA)
- (iii) To see how the nationals of a country are doing economically.
- (iv) Formula :— $GNP = GDP + NFIFA - NFITA$
 NFIFA = Net factor income from abroad
 NFITA : — Net factor income to abroad.

28. Distinguish between voluntary and involuntary unemployment.

Ans. The difference between voluntary and involuntary unemployment are :—

Voluntary Unemployment :—

- It occurs when some people are not willing to work at all or are not willing to work at the existing wage rate.
- Voluntary unemployment is not considered in the estimate of total unemployment in a country
- In this situation, the person remains unemployed despite jobs being available in the market.

Involuntary unemployment :—

- It refers to a situation when people are willing to work at the existing rate, but are not getting work.
- Involuntary unemployment is considered in the estimate of total unemployment in the economy.
- In this situation, the person remains unemployed due to non-availability of jobs in the market.

29. Distinguish between capital expenditure and revenue expenditure.

Ans. The difference between capital expenditure and revenue expenditure are :—

Capital expenditure :—

- Capital expenditure refers to that expenditure which leads to asset creation or reduction in liability for the govt.
- Capital expenditure has a duration of more than one year.
- These are not matched with the capital receipts.
- Example :— Expenditure on purchasing land, loans granted to state govt.

Revenue Expenditure :—

- Revenue expenditure refers to that expenditure which does not lead to asset creation or reduction in liability for the govt.
- Revenue expenditure has, a duration of upto the one year.
- These are matched with the revenue receipts to know the profit/loss for the year.
- Example :— expenditure on law and order, expenditure on old-age pensions.

(Long Answer Type Questions)

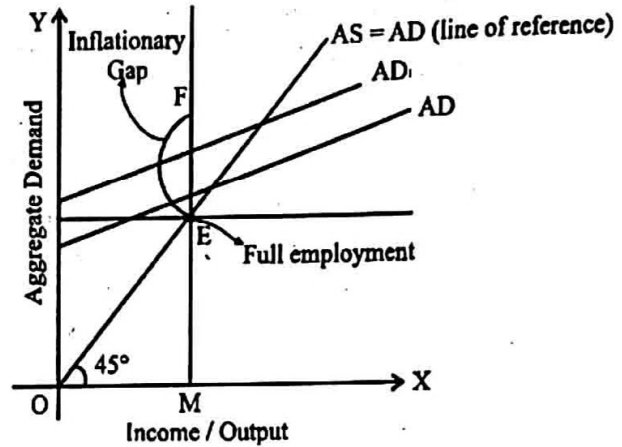
Answer the following questions:

6x3=18

30. Explain the concept of inflationary gap, with the help of a diagram.

Ans. Inflationary Gap is the excess of aggregate demand over and above its level required to maintain full employment equilibrium in the economy.

Diagrammatic Representation



Full employment equilibrium is struck at point E. If the level of demand increases to AD_1 , it is in excess of what is required to maintain full employment. This causes inflation. Hence, the difference between AD_1 and AD (EF) is called inflationary gap.

31. What is a progressive tax? Explain its merits and demerits.

Ans. Progressive Tax is a Tax that causes relatively less burden on the poor and more on the rich.

Merits of Progressive Tax :—

- It is based on 'Ability to pay'. Since the 'ability to pay' increases in direct proportion to the increase in income, hence, the rate of the tax goes on increasing with every increase in the size of the income.
- It is less expensive. It is economical in the sense that the govt. can bring about a sizable increase in its income through increases in rate without any increase in the cost of collection
- It is elastic :— It is elastic in the sense that with minor changes in the rates, substantial changes can be brought about in the income of the govt.

Demerits of progressive Tax :—

- Arbitrariness in taxation. The rates are fixed by the govt. in an arbitrary manner under progressive taxation. The govt. increases the rates of progressive taxes in an indiscriminate manner when it needs more income at a time of crisis.
- Saving discouraged. The saving in a commodity are discouraged under a system of progressive taxation. The reason is that the burden of taxation falls on those sections of the commodity which are in a position to save.
- Scope of tax evasion :— There is always a considerable scope for tax evasion or tax avoidance under system of progressive taxation.

32. What is meant by Disequilibrium in the Balance of Payment? Explain its causes.

Ans. Disequilibrium in the balance of payments, we refers not to the balance of payments as a whole, sections of credits and debits.

Causes of Diequilibrium in Balance of payments are

- (i) **Economic factors :—**
 - (a) Imbalance between exports and imports. It is the main causes of disequilibrium in balance of payments.
 - (b) Large scale development expenditure which causes large imports.
 - (c) Cyclical fluctuations like depression in general business activity.
- (ii) **Political factors :—** Experience shows that political instability and disturbances causes large capital outflows and inflows of foreign capital.
- (iii) **Social Factors :—**
 - (a) Changes in fashions, tastes and preferences of the people bring disequilibrium in BOP by influencing imports and exports.
 - (b) High population growth in poor countries adversely affects their BOP because it increases the needs of the countries for imports and decreases their capacity to export.

OR

What is commerical bank? Mention its main functions.

Ans. Commercial banks are those financial institutions which accept deposits from the people and offer them loans for purpose of consumption and investment.

The functions of commercial banks are broadly classified into primary functions and secondary functions.

- (i) **Acceptance of Deposits :—** The banks accept three types of deposits from the public.
 - (a) **Fixed Deposit :—** Money in this account is accepted for a fixed period and cannot be withdrawn before the expiry of that period.

(b) **Current Account :—** The depositor can withdraw money from this account whenever he requires it.

(c) **Saving Bank A/c :—** In this account the depositor can withdraw only a specified sum of money in a week.

(ii) **Advancing of loans :—** The various types of loans and advances are there. The public deposit are used by commercial banks for the purpose of granting loans to individuals and bussiness. Commercial bank grant loans in the form of overdraft, cash credit, discounting of bills of exchange and ordinary loans.

(b) **Secondary functions :—**

(i) **Agency functions :—** It implies that commercial banks act as agents of customers by performing various functions, which are as follows :—

(a) **Transfer of funds :—** The bank helps its customers in transferring funds from one place to another through an instrument known as the bank draft.

(b) **Collecting customers funds :—** The bank collects the funds of its customers from other banks and credits them to their customers.

(ii) **Dealing in foreign exchange :—** Implies that commercial banks help in providing foreign exchange to businessmen dealing in exports and imports.